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C O N F I D E N T I A L SECTION 01 OF 04 TALLINN 000347

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DEPARTMENT FOR EUR/NB AND INR
MOSCOW FOR DWIGHT NYSTROM

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SUBJECT: RUSSIAN BEAR HUG SQUEEZES ESTONIAN ECONOMY

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Classified By: DCM Jeff Goldstein for reasons 1.4 (b) & (d)

11. (C) Summary: In the three weeks since the April 26-27 Bronze Soldier riots, Estonia has faced pressure from an array of trade-disrupting measures from Russia. Cyber attacks on government and financial websites have been costly and have raised international concern and support. GOE officials have called on NATO to address the issue and cited the need for an international legal framework for dealing with cyber attacks. In addition, disruptions in rail and truck traffic, an informal boycott on Estonia goods and other measures have put a strain on some Estonian businesses. A GOE study estimated that if maintained over the long run transit disruptions could cost Estonia 2-3 percent loss of GDP, although there are some indications that the disruptions are already starting to ease. Estonia has prioritized addressing Russian behavior via the EU, although GOE officials indicate Estonia won't move to block EU-Russia cooperation. End Summary.

Unofficial Trade Sanctions Begin

12. (C) Following the April 26-27 riots surrounding the GOE,s removal of the Soviet-era Bronze Soldier statue, Estonia has been subjected to an array of trade-disruption measures initiated by Russia. These measures, which GOE officials note are similar to those previously applied against other neighboring countries including Ukraine, Georgia and Poland, include:

- Arbitrary use of phyto-sanitary regulations on meat and other food products;
- Discouraging Russian consumers from purchasing Estonian goods;
- Announcing sudden, unscheduled maintenance on vital transit arteries;
- Artificially slowing border traffic by use of customs and inspection bureaucracy; and
- Pressuring Russian companies to break long-term contracts with Estonian firms.

Cyber Attacks

13. (C) In addition to these &traditional measures, since April 27 Estonia has been subjected to Distributed Denial-of-Service (DDOS) cyber attacks against key government ministry websites and commercial enterprises via &bots (computers under the control of a third party). Although investigations into these cyber attacks are ongoing, and no one has claimed responsibility for them, the political nature of the attacks clearly suggests coordinated Russian involvement. Initially, the attacks concentrated on key GOE websites (e.g., the State Chancellery, Parliament, Ministry of Foreign Affairs, and Ministry of Justice). They forced the GOE to ratchet up Estonia,s broadband capacity over eightfold to remain operational. While successful in this cyber arms race, increasing its broadband capacity so drastically has been extremely expensive for the government. Estonia,s small size proved to be an asset in responding to the cyber attacks, because a handful of decision-makers could quickly coordinate responses, and discard ineffective strategies, as the attacks unfolded. Elion, Estonia,s main telecommunications and internet provider, worked closely with the GOE to rapidly provide increased broadband capacity as the attacks increased. Jana Vanaveski, an advisor to President Ilves, told us that the improvements the GOE had made in preparation for e-voting during the March parliamentary elections had bolstered the GOE,s ability to respond to the cyber attacks.

14. (C) On May 1, the cyber attacks expanded to include Estonian commercial websites, principally banks (e.g., Hansabank and SEB), websites of Estonian newspapers (e.g., Postimees and Eesti Päevaleht), and Falck AS Security (Estonia,s largest private security company which provides

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the Embassy,s Local Guard Force). The private sector, especially the banks, often had better defensive measures in place than the government did, and was consequently better able to contain the attacks. However, containment came at a cost. With over 90% of Estonians dependent upon online payments, banks had to close foreign access to increase domestic access capacity and provide ad hoc service to its largest foreign clients through alternate sites. Hansabank officials told us that while their tactics were ultimately successful, they cost the bank an estimated 10 million Euros (\$13.4 million) in lost revenue. While Estonian authorities are not sure from which country the perpetrators behind the GOE website attacks were operating, they are convinced that the people behind the commercial bank attacks operated from within Estonia.

15. (C) The GOE was quick to accuse the Government of Russia of involvement in these cyber attacks. On May 2, Foreign Minister Urmas Paet released a statement that the MFA had proof that some of the attacks originated from Russian government internet service provider (ISPs) addresses. However, officials from Estonia,s Computer Emergency Response Team (CERT) and Cyber Defense experts have privately informed us there is still no &smoking gun that links the attacks to Moscow. However, the unprecedented nature of cyber attack against a nation state has received wide international coverage. On May 17, Minister of Defense Jaak Aaviksoo told the press that while he didn,t think the cyber attacks against Estonia were a breach of NATO,s Article 5, NATO needed to resolve how to respond to cyber attacks against its member states. NATO sent a team of cyber experts to assess the situation May 10-12. At Post,s request, a EUCOM cyber warfare expert joined the NATO team to provide an independent, technical assessment and analysis. The U.S. Secret Service has also offered to send experts to Estonia.

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On May 14, Minister of Justice Rein Lang expressed his gratitude to the Ambassador for the USG,s assistance in Estonia,s investigation. Like Aavikisoo, Lang emphasized the need for the international community to begin the process

of establishing a legal framework to address cyber attacks.

Boycotts on Estonian Products; Pragmatism Based on Experience

¶16. (SBU) Immediately following the riots, there were numerous accounts of an informal Russian boycott on Estonian goods. While Russian authorities insisted there was no official ban, press reports said that stores throughout Russia had announced that they would stop carrying Estonian products like Kalev chocolates (Estonia's largest confectionary exporter) and Estonian meat products. Russian shops reportedly received letters from the state Veterinary and Food Board that Estonian products did not meet Russian sanitary standards. The actual impact of the unofficial boycott is difficult to quantify. GOE officials have consistently downplayed its importance, noting that since the 1990s, Estonian exporters have taken steps to diversify their markets and reduce reliance on Russia. For example, the Russian market counts for less than one-third of Kalev's total exports and only a few percentage points of total sales. Overall, only 23 percent of all Estonian food and agricultural exports went to Russia in 2006 (less than 7 percent of overall GDP).

¶17. (SBU) At the request of the Ministry of Foreign Affairs, the Estonian Chamber of Commerce surveyed its members from May 4-11 regarding the impact of these unofficial Russian measures on their business. For the most part, Estonian firms responded that they had not experienced direct restrictions on their business with Russia, and that they planned to wait and see.⁸ However, responses showed that the cumulative effect of these two weeks of uncertainty had put a chill on the business climate between the two countries and reminded Estonian companies that Russia is still Russia.⁸ A survey of hotels and travel agencies conducted by the tourism department of Enterprise Estonia (the Ministry of Economy's trade promotion board), found that while few had any cancellations during the past three weeks, 52 percent thought the events since April 26-27 had a negative impact on business. (Note: Only 4.7 percent of tourists come from Russia, and most of those travel here for the New Year's holiday. End Note.)

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Disruption of Transport Sector: Rail and Road Blockages

¶18. (SBU) Cargo rail service between Estonia and Russia was also disrupted after the riots. On May 1, the Russian state railway (RzD), announced that its coal cars bound for Estonian ports and points south suddenly needed repair, but that companies with contracts for the month of May could use their own coal cars if they could provide them. At the same time, RzD announced the need to repair rail lines leading into northern Estonia through Narva. The Estonian National Railway (EVR) confirmed to us that their daily volume of inbound freight trains dropped almost immediately from 32 to ¶16. As of May 23, EVR's daily volume was still hovering around 25 per day, or roughly 75 percent of the pre-riots level. Our contacts at EVR told us that a sustained volume of less than 25 trains per day would force the railway to lay off workers, cancel planned investment in infrastructure, and raise passenger fares. On the other hand, the Director of the Port of Tallinn, through which much of the transit trade passes, told Ambassador Phillips on May 25 that he expects transit traffic to be back to normal levels by the end of June, since re-routing oil shipments is very costly for the Russian exporters.

¶19. (SBU) Wood veneer producer Balti Spoon, which imports 70 percent of its lumber from Russia, told us that about one-fifth of their annual supply from Russia was pending when the disruption to rail transit occurred. By the time they had worked out alternate routes to get the Russian lumber in

through Latvia, (which would have added 5-10 percent to their cost) direct rail connections were back to normal. Companies dependent on Just-In-Time delivery, such as the oil transit company PakTerminal, were more directly impacted during these three weeks.

¶10. (C) An internal study done by the Ministry of Economic Affairs and Communications the first week in May, estimated that Russian trade-disrupting measures could cost the Estonian economy as much as 2-3 percentage points of economic growth if they continue until the end of 2007. The bulk of this would be transit fees lost to EVR, which put in place plans to furlough workers and halted planned investment projects immediately following the slowdown of inbound freight from Russia. MFA Director General for External Economic Issues, Priit Pallum told us, however, that most Estonian companies are downplaying the situation, at least in the short run, for two reasons. First, they hope that the political difficulties will die down and business will return to normal; and second, they do not want to expose the extent of their losses, and thereby encourage competitors in Russia or elsewhere to try to take business away from them. In Pallum's estimation, the most potentially damaging of all the GOR's recent tactics is the pressure on Russian companies to break long-term contracts with Estonian firms. &If Russian businessmen get the message from higher up that they are not going to be allowed to deal with Estonian companies, they will orient their long-term planning elsewhere, to other suppliers,8 Pallum said. Officials at EVR and Tallinn's Muuga Port also told us they know that if the capacity and reliability of competitor ports such as St. Petersburg or Primorsk ever rises significantly, their Russian customers may go away for good, although even here, they expressed doubt that the expansion of Russian ports would be able to keep up with the continued expansion of the Russian economy.

Bridge Over Troubled Relations

¶11. (SBU) On May 10, the Russian Federal Roads Administration (Rosavtodor) announced that it would soon bar all vehicles weighing over 13.5 tons from traversing the Narva river between Ivangorod, Russia and Narva, Estonia, due to unspecified safety concerns. The Narva bridge is the primary crossing point for all cargo trucks passing between the EU and Russia in northern Estonian) approximately 140 trucks per day in each direction under normal circumstances. The weight restrictions were imposed from May 16-18, forcing trucks returning to Estonia to take a much longer southern route (at Petseri) and creating long lines at the bridge. According to the MFA, the Narva Bridge passed a safety inspection two years ago for trucks up to 41 tons; the

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Russian authorities were not in a position to evaluate the bridge because it is under Narva city jurisdiction; and a border crossing agreement between the two countries requires at least 90 days, notice before restricting traffic. After several false starts, Estonian and Russian transportation officials finally met on May 22 and agreed to create a group of Estonian and Russian experts to examine the bridge decide on its future use. Road signs on the Russian side announcing the weight limit have been removed, and traffic is now crossing normally.

Estonia,s Response

¶12. (C) The GOE has prioritized addressing Russian behavior multilaterally, through the EU (and NATO on the cyber attacks). Drawing on his own long experience working with Russia, the MFA,s Pallum discounted the usefulness of engaging Russian officials directly. The instructions come from the Kremlin, he noted, so it is simply not useful to try and resolve issues with officials at a working level. This

has been tried in the past and failed, Pallum explained. Even when there are good relations between Russian and Estonian counterparts, the Russian officials do not have the authority to make any decisions. Rather, according to Pallum, Estonia has and will continue to urge the EU to unite behind &strict talk with Russia ... and a strong position - the only thing the Russians understand.⁸ Nobody would benefit more from Russian involvement in organizations like the WTO and OECD than Estonia, Pallum added, but only if they act like a normal international partner. Within the EU, the GOE,s priority is consensus building. Jana Vanaveski emphasized that Estonia wants to continue its &pragmatic⁸ approach and move forward; it is not interested in blocking specific cooperative efforts between Russia and the EU - like the EU-Russia Partnership and Cooperation Agreement. Estonia is very familiar with Russian tactics she said, now other member states see them as well.

Comment

[1](#)13. (C) Estonia,s success in recent years in re-orienting its economy away from Russia has clearly made it less vulnerable to Moscow,s use of economic tools for political pressure. At the same time, the cyber attacks Estonia has endured have demonstrated to the international community a new vulnerability of national economies in the digital age. The main economic lesson from Estonia,s experience of the past few weeks may be the reality of not just the physical threats to 21st century market economies, but the virtual ones as well. End Comment.
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